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JAN 11 1961
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INFLATION

CAUSES AND CURES

RECEIVED
JAN 11 1961
AGRICULTURAL LIBRARY
& RURAL ECONOMY

INFLATION DEFINED

"AN INCREASE IN THE VOLUME OF MONEY AND CREDIT
RELATIVE TO AVAILABLE GOODS RESULTING IN A
SUBSTANTIAL AND CONTINUING RISE IN THE PRICE
LEVEL"

MONEY SUPPLY

THE MOST IMPORTANT SINGLE DETERMINANT OF THE
RATE OF INFLATION IS THE RATE OF INCREASE
IN THE MONEY SUPPLY.

MONEY SUPPLY INCREASES	15%
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SUPPLY OF GOODS INCREASES	3%
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EQUALS INFLATION RATE	12%
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THE FEDERAL RESERVE BOARD CONTROLS

THE MONEY SUPPLY.

WHY DON'T THEY SLOW THE RATE OF

INCREASE IN MONEY CREATION TO MATCH

THE PRODUCTION OF GOODS AND SERVICES?

IT ISN'T EASY.

CAUSES OF INFLATION

1. DEFICIT SPENDING

FED ↑ M/S TO MEET CREDIT NEEDS

"CONGRESS AND SPECIAL INTEREST GROUPS

INCLUDING FARMERS AND CONSUMERS ASK FOR

↑ M/S WHEN CREDIT SHORT AND INTEREST

HIGH"

SPIRALING CAUSE AND EFFECT

2. CONSUMER ATTITUDES

"A PENNY SAVED IS A PENNY EARNED"

VS.

"A PENNY SPENT IS A PENNY SAVED"

BUY BEFORE PRICE GOES UP

↓ SAVING

↓ INVESTMENT

↓ PRODUCTION

↑ INFLATION

3. SHORTAGES

OPEC

4. GOVERNMENT PROGRAM BENEFITS

S.S. PAYMENT ↑ 20% MORE THAN COL

(1979)

PARITY (DAIRY FARMS)

OTHERS

THE CURE: WILL IT WORK?

FEDERAL RESERVE HAS POLICY TO SLOWLY ↓
GROWTH OF M/S

DEPENDS: WILL VOTERS AND CONGRESSMEN COMPLAINTS
ABOUT UNEMPLOYMENT STOP AND/OR REVERSE
POLICY?

WILL REQUIRE:

CHANGE EXPECTATION
INCENTIVES TO SAVE/INVEST
INCENTIVE TO WORK
BREAK INDEX SPIRAL
CEASE BAIL-OUTS
LOWER TRADE BARRIERS
DEREGULATION
DON'T PRESSURE FEDERAL RESERVE

INFLATION

CAUSES AND CURES

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